

Health plans are also implementing capabilities – often referred to as “Customer Relationship Management” (CRM) capabilities – that will better enable them to manage customer interactions.

Health Consumer Attitudes about Customer Service

- Through 2004, 65 percent of payer organizations that fail to implement e-CRM capabilities or personalize consumer interactions will not gain customer loyalty, risking a decrease in membership by 25 percent (0.8 probability)
 - A component of CRM and e-business, e-CRM includes such Web-based customer channels as e-sales, e-service and e-marketing
- 82% of health consumers have stopped using a company's products or services when they lost trust in a company
 - 84% of consumers lost trust when they received poor customer service
- By the end of 2003, Care Delivery Organizations without a comprehensive CRM program will lose 20% of their business to their CRM-savvy competitors
 - CRM is an enterprise wide business strategy designed to optimize profitability, revenue and customer satisfaction. For CDOs, this also entails involving consumers in more-active patient care management processes (e.g., registration, scheduling, payment management, direct communications with caregivers and access to diagnostic results). The three domains of CRM are sales, marketing and customer service and support.
- 29% of healthcare consumers say managed care plans are doing a good job serving customers (down 22 points since 1999)
- Over 55% of healthcare consumers gave their health plan a grade of C, D or F in dealing with member problems

Source: Gartner Research, *e-CRM for Healthcare Payers: Deployment Strategies*, June 2001; Modern Healthcare, *Getting the Royal Treatment: Many Healthplans are Going the Extra Mile for Consumers Looking for the Best Service for Their Healthcare Dollar*, June 25, 2001; Gartner Research, *CDO Customer Service: Improve or Fail*, March 2001; Health Management Technology, June, 2001

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There are numerous types of CRM programs that a health plan may pursue, depending on capabilities already in place and organizational priorities.

Sample CRM Programs and Relative Magnitude of Investment

CRM Program	Estimated Cost to Implement
Develop & Implement:	
– Customer “interaction” center	\$15MM - \$25MM
– eCRM portal	
Install & Integrate:	
– CRM software	
Develop & Implement:	
– Call center	\$25MM - \$37MM

\$17MM

Health plans are responding to this willingness by creating and implementing services and products that increase consumer choice and flexibility.

Emerging Product Innovations

Innovation	Features	
Defined Contribution Plans	<ul style="list-style-type: none"> • Employer fixed \$ contribution • Employees choose plans 	<ul style="list-style-type: none"> • Use of plan selectors
MSA Plans	<ul style="list-style-type: none"> • Employer fixed \$ contribution • Self-directed primary care 	<ul style="list-style-type: none"> • Catastrophic insurance • MSA savings features
"ePlans"	<ul style="list-style-type: none"> • 100% "e" transactions 	<ul style="list-style-type: none"> • Some built on green field systems, processes
Expanded Product Features	<ul style="list-style-type: none"> • Information services 	<ul style="list-style-type: none"> • Non-traditional health-related product features
Buyer Value Segmentation	<ul style="list-style-type: none"> • Segments defined by buying behavior, not demographics 	<ul style="list-style-type: none"> • Groups and individuals
Consumer Configured Networks	<ul style="list-style-type: none"> • Consumers configure own networks based on needs, fee schedules 	<ul style="list-style-type: none"> • Some have variable co-pays • Providers compete for consumers, not contracts

Source: Accenture Analysis

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Estimated Average Health Plan Investment Needs In the Next 3-5 Years*

(for Large Health Plans with Revenues > \$500 Million)

Investment Category	Low	High
HIPAA Health Insurance Portability and Accountability Act	\$30	\$60
eCommerce	\$10	\$40
Consumer-focused Initiatives	\$20	\$40
IT Infrastructure Improvements	\$30	\$50
Merger and Acquisition Activity**	\$330	\$450
Other (e.g., merger integration expenditures, partnerships / interconnectivity, potential future regulations, etc.)	Additional	Additional
Total Investment (in Millions)	\$420+	\$640+

Details to
Follow

*Estimates based on industry analyst projections and current market conditions; may evolve given new information over time

** Estimated based on the average actual cash expended on mid-range health plan acquisitions since 1997, screened against available merger candidates in CareFirst's markets

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; SEC Filings; Company press releases; Merger news articles; Accenture analysis, surveys and client experience

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On average, plans spend \$30 - \$50 million to make improvements to operational systems, processes and assets.

Estimated Health Plan IT Infrastructure Budget*

Gartner - 2000 Payer IT Budget and Staffing Survey <i>Health Plans >\$500MM Revenues</i>	
	\$PMPY
Operating budget allocation	\$ 32.28
Capital budget allocation	\$ 14.05
Total IT Spend \$PMPY	\$ 46.33

Gartner - 2000 IT Spending and Staffing Survey <i>Insurance - Health/HMO</i>	
IT Budget Category	% of IT
New Developments	17.4%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Major Enhancements	12.1%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Application Support & Maintenance	15.0%
• <5% allocated to: eCommerce	
Infrastructure & Administration	55.5%
• <5% allocated to: eCommerce	

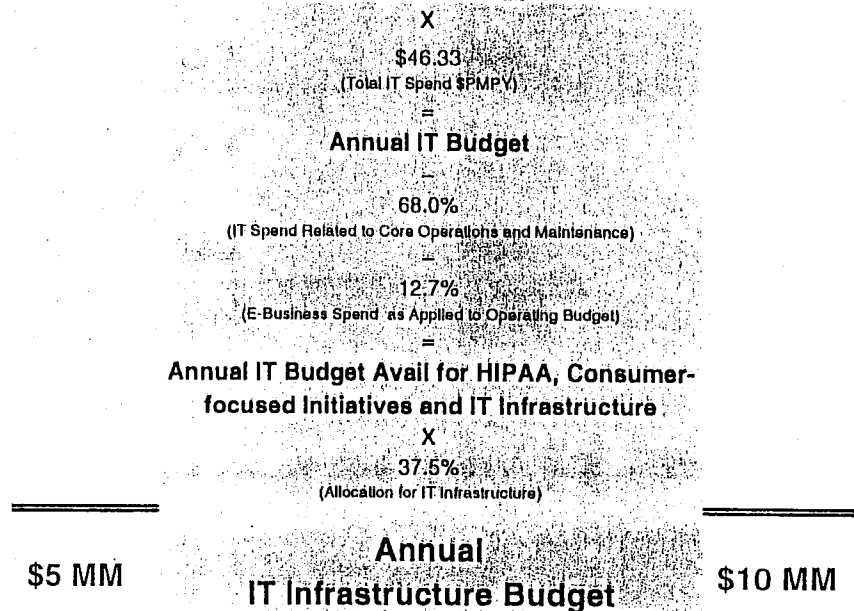
IT Spend Assumptions	
	% of IT
Core Operations and Maintenance	68.2%
E-Business as % of Operating Budget	12.7%

Low Estimate

1.25 Million Members

High Estimate

2.5 Million Members



*Budget estimates were modeled according to Gartner data relating to IT Budgets and E-Business spend as well as Accenture client experience and should be considered as a high-level range for large health plans. IT infrastructure improvements are expected to take 3-5 years.

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; Accenture Analysis